

**Lyons Housing Review**

Response by London Councils to the independent housing commission led by Sir Michael Lyons

February 2014

1. London Councils is committed to fighting for more resources for the capital and getting the best possible deal for London’s 33 local authorities. We lobby key stakeholders, develop policy and do all we can to help our boroughs improve the services they deliver. We also run a range of services ourselves, all designed to make life better for Londoners.
2. London Councils welcomes this opportunity to respond to the Lyons Housing Review, we believe that the current level of house building in London needs to be significantly increased in order to address London’s current and future housing needs.
3. London has not been building enough homes for the past thirty years the consequences of this lack of house building is growing ever starker. Since 1983 house prices in London have increased in real terms by 389 per cent, but average household incomes have increased in the same period by only 106 per cent[[1]](#endnote-1). In 2013, the average rent for a three bedroom flat is £1,833 per month, consuming typically 59 per cent of a London family’s income[[2]](#endnote-2). Londoners now experience the highest levels of overcrowding in the country and the capital currently has more than 42,260 homeless households in temporary accommodation[[3]](#endnote-3).
4. This current and cumulative lack of housing delivery in London is not just affecting peoples’ lives, but also the wider economy. The CBI as well as small companies is warning that the lack of affordable housing will increasingly affect London’s future as a world-leading place to work and live.
5. Our analysis shows to meet new housing need, each year London needs to build 52,600 homes[[4]](#endnote-4). However, last year only 27,330 homes were built, 25,270 fewer than required[[5]](#endnote-5). The current backlog of homes is 283,000; on current projections only 250,000 will be built by 2021 and London will be faced we a deficit of 559,000 homes[[6]](#endnote-6).
6. We need to increase new housing supply in London to do so housing finance; land and capacity issues need to be addressed in a systemic way.

**Summary of our key points:**

* London Councils supports the removal of the housing revenue account borrowing cap to give boroughs increased borrowing capacity.
* London Councils supports a standardised model permitting deferred payments on public land should be developed, where this would convert sites from unprofitable into viable housing schemes.
* To prevent land banking, we believe introducing an undeveloped land tax which would be levied on land that has had planning permission for 3 years but had yet to be completed. The aim of this tax would be to increase supply not raise revenue. Any funds raised should be ring fenced for social housing.
* We believe opportunities should be explored to move towards longer-term contracts for house building to support the building trade leading to significant investment in developing their delivery capacity.
* There should be greater flexibility in the payment of the Community Interest Levy (CIL) to support small house builders. This could be as paid as a phased payment during the development process or deferring the payment until after completion or within six months of a property sale.
* We believe that to encourage institutional investment in the private rented sector, housing covenants on land should be introduced, requiring housing to be available for rent over a long period of time, would attract investors and give them delivery long term financial certainty.
* Developing sub-regional joint planning teams could speed up the level of new housing across housing markets and planning decisions.
* To streamline planning condition we believe there should be greater flexibility over pre-commencement conditions. In particular the ability to alter the timing of conditions, so that developers can meet costs at different stages of the development process.
* Local authorities should be able to set timescales and service standards for non-planning consents. A thirteen week maximum timescale should be the benchmark timeframe for all standard applications, within a minimum period of eight weeks for the majority of cases when the consent is straight forward.
* We believe that in respect of large scale housing regeneration projects local authorities should charge at a full cost recovery basis. This will enable councils to meet all 13 week planning targets.

**London Councils response to the Lyons Commission**

1. The land market – unlocking land for housing development

*How do we get much more residential land to market and what are the best*

*mechanisms to achieve this?*

One of the key barriers to increasing house building in London is the cost and availability of land. The Mayor of London recently estimated that the overall capacity of land available in London between 2015 and 2025 is 423,887 new homes[[7]](#endnote-7). Yet our analysis shows London needs over 800,000 new homes.

The Mayors draft revised Housing Strategy contains proposals to increase densification of housing in inner London suburbs, town centre and transport hubs. London Councils has qualified support for this as long as it reflects wider housing need in London and local housing and planning priorities.

In order to address land availability we need to ensure that all available land is effectively used. London could develop a standardised model permitting deferred payments on public land, where this would convert sites from unprofitable into viable housing schemes. This would use knowledge gained from Catford Stadium in London Borough of Lewisham and other schemes. Evidence suggests that the return of the cost of deferrals reach a maximum impact at around 25% of cost. London government would receive a share of the increased land values at the point of sale.

We also need to adopt some radical thinking and explore opportunities to increase land capacity. There is 35,160 hectares of green belt land within London[[8]](#endnote-8). There is available land in surrounding areas of the green belt land in close proximity to eleven tube stations and railways stations in London. If this land were to be developed to a 10 hectare area, more than 7,875 new homes could be developed with full infrastructure links[[9]](#endnote-9).

*How can we ensure that the land brought to market is available for development and not simply land banked?*

London local authorities have granting planning permission for enough homes to be built to meet London’s housing need, however only about half these homes are built. In July 2013 there were 124,247 individual homes with planning permission that have yet to be built[[10]](#endnote-10). Given the level of demand for housing it is essential that viable land is utilised.

We believe disincentives need to be provided to developers to prevent land being hoarded. We suggest introducing an undeveloped land tax which would be levied on land that has had planning permission for 3 years but had yet to be completed. The aim of this tax would be to increase supply not raise revenue. Any funds raised should be ring fenced for social housing.

We envisage that at the point of gaining planning permission a ‘condition of planning permission being granted’ would be attached to the planning application stating that a charge on an uncompleted planning permission would be levied 3 years and 1 day after the planning application had been agreed. The charge would be an annual flat rate fee (to be decided by the borough) per unit where planning permission has been granted but building not started.

Our analysis, based on GLA figures, shows that is this tax had been levied between 2004 and 2009 it would have applied to 26,654 units in London. If for example a £1000 tax was levied on each of the 26,654 units still outstanding from 2004, which had not completed this, would generate over £26m. If this cash was recycled into affordable rented housing this could generate in the region of 1000 homes at current grant levels.

*Given the consensus that our current development industry is not capable of delivering the homes we need, how can we bring about greater capacity, competition and diversity to ensure it can deliver the homes our country so badly needs?*

The development industry currently is not capable of delivering the homes London needs in terms of both price and size. If we are to tackle the housing crisis we need to build capacity in the building trade. We believe there are a number of interventions that could be made in the market to help support capacity building.

A significant part of the housing supply problem in London is the monopolisation of house building by a reduced number of builders compared with 20 years ago when over two thirds of homes were built by companies employing fewer than 500 people. This compares with 2012, when just 27 companies were responsible for 70 per cent of housing starts in London[[11]](#endnote-11).

Lack of long term certainty for both small and larger scale builders is a significant barrier to growth. Currently 75 per cent of contracts to build new homes are for 18 months or less. These short-term build contracts increase the risk of expanding and building capacity is therefore kept low to stay in profit. We believe that option should be explored to move to long-term contracts for house building to support the building trade leading to significant investment in developing their delivery capacity.

We believe more support is needed for the small house builders, who face many challenges as they struggle to compete with the bigger players in the market. Data from the Federation of Master builders indicates that the majority of small house builders build fewer than 5 homes a year, with ‘specialised’ small house builders building in the region of between 10 - 20 homes a year.

There should be greater flexibility in the payment of the Community Interest Levy (CIL) to support small house builders. This could be as paid as a phased payment during the development process or deferring the payment until after completion or within six months of a property sale. This would be negotiated between the local authority and the builder and would encourage small builders to secure larger projects and stimulate the market attracting great competition and innovation.

2. Investment in housing and associated infrastructure

*To ensure a step-change in housebuilding reform of our housing and planning system is essential, but greater investment, public and private, into housing and associated infrastructure is also crucial:*

*The current structure of the Housing Revenue Account (HRA) system is overly*

*bureaucratic and is hampering sound investment in social housing. What flexibilities through the HRA and in other areas could be granted to local authorities so they can build more homes?*

London Councils agrees that the structure of the Housing Revenue Account (HRA) is preventing sound investment and we support greater flexibilities for boroughs along with the removal of the HRA borrowing cap. Should the artificial cap on councils borrowing against their stock were lifted and boroughs were able to borrow up to prudential limits, boroughs could build more housing themselves.

If London boroughs level of prudential borrowing was at a similar level debt to liability ratio as the rest of the country, this would mean an extra 2.5 billion borrowing capacity would be released enabling boroughs in London to build an extra 13,900 homes by 2021 (this would amount to only 0.24 per cent of the existing national debt (2011/12), or 0.11 per cent if we include financial interventions, or just over a 10th of the cost of HS2 (£2.5 billion compared to £32.7 billion cost of HS2)[[12]](#endnote-12).

London Councils suggests that the removal of the HRA from the Public Sector Net Borrowing (PSNB) would allow borrowing against housing assets on a more commercial basis. The UK government currently treats borrowing for public housing investment purposes as part of national borrowing, and so it falls under the PSNB. Other European countries account for investment that produces an income and a capital asset differently to other public sector debt. Should this take place in the UK significant changes in financial controls and governance would need to be agreed.

The benefits could only be realised as a result of these discussions, however an indication of the potential can be inferred from the fact that current HRA debt for London is £6.4 billion against councils assets. In our estimation this equates to a rough market value of the order of £200 billion, equating to 3% borrowing on assets[[13]](#endnote-13).

*What are the barriers to greater private investment, particularly long-term investment. How much investment must we attract and through what mechanisms? What part can institutional investment play?*

The private rented sector is the fastest growing tenure in London. More Londoners are living in this sector than ever before and it now provides a home or more than one in four Londoners, and is now at its highest level since the 1970s. High demand for private rented properties from those with well-above average incomes creates the potential for a high quality retail product to be offered to the London market.

The private rented sector will continue to play a key role in housing development, as it can offer those who cannot buy, or do not qualify for subsidised housing, the chance of a home. Encouraging institutional investment has a vital role to play to increase the volume of homes built and homes available for private rent. Institutional investment in London has great potential to will work anywhere in the UK it will be in London.

As recently as twenty years ago in the UK 40% of landlords in the private rented sector were institutional investors, in 2011 this figure had dropped to 20% with institutional investors owning around 600,000 homes in total. This compares with Germany where the level of homes owned by institutional investors is 6 million, and in France the figure is 1 million[[14]](#endnote-14).

This disparity in investment levels is reflected in the size of the largest German and British institutional landlords with the largest institutional landlord in Germany Deutsch Annington owning over 200,000 properties, compared to the largest PRS landlord in the UK, Grainger owning just 14,000 properties[[15]](#endnote-15).

Despite an 85% increase in private sector renting between 2000 and 2010[[16]](#endnote-16), London still has a lower level of households renting in the private rented housing in relation to comparable countries. Gradually as people are priced out of owner occupation and unable to access mortgages, this sector in London is likely to grow to 37% by 2025[[17]](#endnote-17).

London is also likely to respond favourably to institutional investment in the private sector because it has relatively larger-scale developments of the size that institutional investors seek. Housing developments such as those in Kings Cross, Barking Riverside, Cricklewood/Brent Cross and the Olympic Park offer a scale that is less common in other cities in the UK. Such schemes usually involve blocks of freehold properties as these offer institutional investors both larger numbers of homes and a greater ability to effectively manage the homes and wider scheme.

London Councils believes that local authorities could play a key role in helping the development of institutional investment in the city by supporting the establishment of funding vehicles that could bring forward further investment, including further investment in the private rented sector.

We support the application of housing covenants on land requiring housing to be for rent rather than sale. This will require the housing to be for rent over a period of 10-20 years, providing additional benefit to squeeze out future speculative land purchase, ensuring land is available. Longer term lets also provide guaranteed rental income for investors, provide stability for tenants and ensure that the properties remain within the private rented sector.

3. The role of a new generation of New Towns and Garden Cities

The UK has never delivered a large uplift in house building without large scale

development, like the post-war new towns. In order to do this we need to arrive at solutions that deliver growth beyond London’s boundaries. London’s relationship with the South East areas and a close examination of the importance of having in place the appropriate transport infrastructure before homes are built.

4. A new “right to grow”

At present, some communities want to grow to meet local housing demand but do not have the land within their Local Authority boundary to do so. Too often neighbouring authorities whose cooperation is needed block the building of badly needed homes.

*What are the incentives, disincentives and requirements (and what is the correct mix) that should be used to ensure cooperation between Local Authorities to cooperate in a joint-planning process in their areas?*

London local government has been working on a number of ideas to support joint-planning processes.

Developing sub-regional joint planning teams have the potential to speed up the level of new housing across housing markets. This structure already exists at the HCA Atlas team and the system put in place as part of the creation of the Olympic Delivery Authority. The advantages of a pooled team would be that developers would have access to a team of expert planners who would work to agreed thresholds ensuring greater certainty and swifter decision making. Developers would also receive a service set within guaranteed timescales. Allowing London local authorities to charge full cost recovery for planning could fund this.

5. Share the benefits of development with local communities:

*Is the current planning gain system fit for purpose and what alternatives exist?*

We believe there is a range of practical, viable options for improving the planning system, could help build new homes, boost economic development whilst safeguarding jobs, lowering costs and making the planning system more efficient.

We4 believe boroughs should be given greater flexibility over pre-commencement conditions. In particular the ability to alter the timing of conditions, so that developers can meet costs at different stages of the development process so as to ease cash flow.

Local authorities should set timescales and service standards for non-planning consents. A thirteen week maximum timescale should be the benchmark timeframe for all standard applications, within a minimum period of eight weeks for the majority of cases when the consent is straight forward.

If planning fees for large scale housing regeneration projects were charged on a full cost recovery system, this will enable councils to meet all 13 week planning targets. This could save developers up to £486 million per year in delayed development costs, while adding only £65 million in planning fees[[18]](#endnote-18). Full cost charging could be used to fund the kind of pro-active multi-borough teams that supported the work of the Olympic Delivery Authority.

1. Halifax cited in www.lloydsbankinggroup.com/media1/economic\_insight/halifax\_house\_price\_index\_page.asp [↑](#endnote-ref-1)
2. VOA Table 1.5 Average rent for a three bedroomed property in London in the twelve months prior to March 2013 [↑](#endnote-ref-2)
3. DCLG Live Table 777, Quarter 3 2013 [↑](#endnote-ref-3)
4. London Councils; London Housing Challenge a London Councils discussion paper; September 2013 [↑](#endnote-ref-4)
5. DCLG, House Building , Live table 253 [↑](#endnote-ref-5)
6. London Councils; London Housing Challenge a London Councils discussion paper; September 2013 [↑](#endnote-ref-6)
7. Greater London Authority; The London Strategic Housing Land Availability Assessment 2013; January 2014 [↑](#endnote-ref-7)
8. <http://data.london.gov.uk/datastore/package/area-designated-green-belt-land> [↑](#endnote-ref-8)
9. London Councils; London Housing Challenge a London Councils discussion paper; September 2013 [↑](#endnote-ref-9)
10. Greater London Authority; London Development Database [↑](#endnote-ref-10)
11. DCLG; House Building: December Quarter 2012 [↑](#endnote-ref-11)
12. London Councils; London Housing Challenge a London Councils discussion paper; September 2013 [↑](#endnote-ref-12)
13. HRA Self-financing Settlement 2012 [↑](#endnote-ref-13)
14. Capital Economics; UK Market Focus; March 2011 [↑](#endnote-ref-14)
15. Investment in the UK Private Rented Sector; HM Treasury 2010 [↑](#endnote-ref-15)
16. GLA Assembly; Proposed review; London’s private rented sector [↑](#endnote-ref-16)
17. The Mayor’s Housing Covenant: Making the Private Sector Work for Londoners; December 2013 [↑](#endnote-ref-17)
18. London Councils; London Housing Challenge a London Councils discussion paper; September 2013 [↑](#endnote-ref-18)